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BEFORE THE ARIZONA CORPORATION COMMISSION
Arizona Corporation Commission

DOCKETED

MAY - 4 2000

CARL J. KUNASEK
CHAIRMANJIM IRVIN
COMMISSIONERWILLIAM A. MUNDELL
COMMISSIONER

DOCKETED BY

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IN THE MATTER OF THE APPLICATION OF
LAGOON ESTATES WATER COMPANY FOR A
PERMANENT RATE INCREASE.

DOCKET NO. W-01825A-99-0701

DECISION NO. 62508ORDEROpen Meeting
April 25 and 26, 2000
Phoenix, Arizona**BY THE COMMISSION:**

On December 7, 1999, Lagoon Estates Water Company ("Lagoon Estates" or "Company") filed with the Arizona Corporation Commission ("Commission") an application for a permanent rate increase.

On February 29, 2000, Staff filed with Docket Control an original and one copy of three telephonic complaints the Commission received from Lagoon Estates' customers regarding the proposed rate increase.

On March 21, 2000, Staff filed its Staff Report, recommending approval for rates and charges different than those proposed by the Company.

Lagoon Estates provided notice of the requested rate increase to its customers on August 6, 1999, by U.S. Mail.

DISCUSSIONIntroduction

Lagoon Estates is a small water utility company located near the Colorado River, about 20 miles south of Bullhead City and 12 miles north of Golden Shores and the Topock Marsh. During the test year ended December 31, 1998, Lagoon Estates provided water to a total of 230 customers in the South Mohave Valley area.

The Staff Report indicates that the Company is in compliance with the Arizona Department of

1 Environmental Quality ("ADEQ") and is providing water with no maximum contaminant violati
2 and meets the quality standards of the Safe Drinking Water Act. The Staff Report states that since
3 the Company is not located within any Active Management Area as defined by the Arizona
4 Department of Water Resources ("ADWR"), it is not subject to monitoring and reporting
5 requirements or water conservation limits.

6 Based on Test Year ("TY") results, as adjusted by Staff, Lagoon Estates' current rates and
7 charges produced revenues of \$90,460. Lagoon Estates realized an adjusted operating income of
8 \$6,616 on adjusted Original Cost Rate Base ("OCRB") of \$275,567, resulting in a rate of return of
9 2.40 percent. In its rate application, Lagoon Estates proposed rates that would yield a revenue level
10 of \$121,594, which would result in operating income of \$38,531 and a rate of return of 17.83 percent
11 on its proposed OCRB of \$216,091. Staff recommended a revenue level of \$110,940, resulting in
12 operating income of \$27,096 and a 9.83 percent rate of return on Staff's adjusted OCRB of \$275,567.

13 Rate Base

14 The Company's application utilized a rate base of \$216,091. Staff increased rate base
15 \$59,476 to \$275,567 as a result of several adjustments. Staff reclassified the Aqua Mag chemical
16 cost of \$522 from Water Treatment Equipment to the Chemicals' expense account. Additionally,
17 Staff increased water deposits by \$4,745 to reflect the appropriate balance of that account. Staff also
18 decreased the Accumulated Depreciation account by \$64,626, from \$243,908 to \$179,282, to reflect
19 the Commission's approved depreciation rates versus the Company's depreciation rates used for
20 income tax purposes. Lastly, Staff increased the working capital allowance by \$97, from \$6,479 to
21 \$6,576, as a result of adjustments to operating expenses.

22 Revenue and Operating Expenses

23 Staff increased water sales by \$7,199, from \$81,621 to \$88,820, to reflect appropriate
24 revenues derived from the Company's submitted bill counts. Staff also increased Water Testing
25 expenses by \$2,553, from \$1,111 to \$3,664, to reflect Staff Engineering's recommended expense
26 level. The Chemical expense was increased by \$522 as a result of Staff's reclassification from Water
27 Treatment Equipment.

1 Staff made a pro forma adjustment reducing transportation expenses by \$2,294. When
2 calculating transportation expenses, Staff included 528 miles per month at a rate of \$.33 per mile for
3 trips from the Company's office in Phoenix to the water system in Mohave County. Staff also
4 included the fuel bills of \$932 for the Company's truck. As a result, Staff's adjustments to TY
5 revenues and expenses resulted in an increase in the Company's operating income of \$198, from
6 \$6,418 to \$6,616.

7 Revenue Requirement and Rate Design

8 In its rate application, the Company proposed rates that would yield a revenue level of
9 \$121,594, which would result in operating income of \$38,531 for a 17.83 percent rate of return on its
10 proposed OCRB of \$216,091. Staff recommended rates and charges that would give the Company a
11 revenue level of \$110,940, resulting in an operating income of \$27,096 and a rate of return of 9.83
12 percent on Staff's adjusted OCRB of \$275,567.

13 The Company currently charges 5/8 X 3/4 inch meter customers a monthly minimum of
14 \$10.00 which includes 1,000 gallons, with usage charges of \$1.30 per thousand gallons between 1001
15 and 6000 gallons, and \$2.00 over 6,000 gallons. In its application, the Company is proposing a
16 minimum charge of \$13.50 for 5/8 X 3/4 inch meter customers with 1,000 gallons included in the
17 Monthly Usage Charge. Additionally, the Company proposes to charge \$1.76 per thousand gallons
18 usage between 1,001 and 6,000 gallons, and \$2.70 per thousand gallons over 6,000. The Company's
19 proposed rates would increase the typical residential bill, with a median usage of 6,082 gallons, by
20 \$5.86, from \$16.66 to \$22.52, for an increase of 35.20 percent. Also, under the Company's proposed
21 rates, the average 5/8 x 3/4 inch meter bill would increase by 35.10 percent, from \$21.41 to \$28.93.

22 In its Report, Staff is proposing a minimum charge of \$12.25 for 5/8 X 3/4 inch meter
23 customers, with a charge of \$2.00 per thousand gallons usage with no gallons included in the
24 Monthly Usage Charge. The rates proposed by Staff would increase the median 5/8 x 3/4 inch meter
25 bill by 46.50 percent, from \$16.66 to \$24.41, and the average 5/8 x 3/4 inch meter bill by 36.20
26 percent, from \$21.41 to \$29.16.

27 We find Staff's recommended rate of return is reasonable. As a result, we also find that
28

1 Staff's proposed Monthly Usage Charges are reasonable and should be adopted. In addition, Staf
2 recommended Refundable Meter and Service Line Installation Charges are reasonable and should be
3 adopted.

4 Other Issues

5 Staff also recommends that the Company comply with issues pertaining to the metering of the
6 system. In its Engineering Report, Staff states that no reliable data were available to calculate water
7 diverted for irrigation through an un-metered 4 inch pipe at Lagoon Estates' #08-021 system. The
8 Company estimates the irrigation use by using discharge times and the well head meter. The amount
9 of un-metered water diverted to irrigation is approximately 40.00 percent of the total water pumped.
10 Staff suggests it is not a good practice to continue estimating these large quantities and recommends
11 that a meter be installed prior to the next application for a rate increase. Staff estimates the
12 installation of a meter would result in a cost of approximately \$2,000.

13 FINDINGS OF FACT

14 1. On December 7, 1999, Lagoon Estates Water Company, Inc. ("Lagoon Estates" c.
15 "Company") filed with the Arizona Corporation Commission ("Commission") an application for a
16 rate increase.

17 2. The Company sent notice of its application for a rate increase to its customers on
18 August 6, 1999, by U.S. Mail.

19 3. On February 29, 2000, Staff filed an original and one copy of three telephonic
20 complaints received from Lagoon Estates' customers regarding the Company's proposed rate
21 increase.

22 4. On March 21, 2000, Staff filed its Staff Report on Lagoon Estates' application.

23 5. Lagoon Estates is an Arizona corporation that serves customers in the South Mohave
24 Valley area.

25 6. During the test year, the average number of customers the Company served was 222.

26 7. The average and median monthly usage by 5/8 X 3/4 inch customers is 8,457 a
27 6,082 gallons, respectively.

8. Lagoon Estates' proposed rates that would yield a revenue level of \$121,594, which would generate an operating income of \$38,531, and a rate of return of 17.83 percent on its proposed OCRB of \$216,091.

9. Staff recommended a revenue level of \$110,940, which would result in an operating income of \$27,096 and a rate of return of 9.83 percent on its adjusted OCRB of \$275,567.

10. Lagoon Estates' present and proposed rates and charges, as well as Staff's proposed rates and charges are as follows

	<u>Present Rates</u>	<u>Proposed Rates Company</u>	<u>Staff</u>
<u>Monthly Usage Charges</u>			
5/8" x 3/4" Meter	\$10.00	\$13.50	\$12.25
3/4" Meter	12.00	16.20	18.50
1" Meter	18.75	25.30	30.00
1 1/2" Meter	37.50	50.60	61.00
2" Meter	60.00	81.00	98.00
3" Meter	112.50	151.90	185.00
4" Meter	187.50	253.00	305.00
6" Meter	375.00	506.25	612.00
8" Meter	525.00	708.75	708.75
Excess of Minimum- per 1,000 gallons:			
0-1,000 gallons	N/A	N/A	\$2.00
1,001-6,000 gallons	\$1.30	\$1.76	\$2.00
Over 6,000 gallons	\$2.00	\$2.70	\$2.00
<u>Service Line and Meter Installation Charges</u>			
5/8" x 3/4" Meter	\$290.00	\$350.00	\$350.00
3/4" Meter	325.00	390.00	390.00
1" Meter	375.00	450.00	450.00
1 1/2" Meter	570.00	685.00	685.00
2" Meter	970.00	1,100.00	1,100.00
3" Meter	1,350.00	1,500.00	1,500.00
4" Meter	2,155.00	2,400.00	2,400.00
6" Meter	4,300.00	4,300.00	4,300.00
8" Meter	6,600.00	6,600.00	6,600.00

1	<u>Service Charges</u>			
	Establishment	\$25.00	\$30.00	\$30.00
2	Establishment (After Hours)	30.00	45.00	45.00
	Reconnection (Delinquent)	35.00	35.00	35.00
3	Deposit	0.00	0.00	*
	Deposit Interest	0%	0%	*
4	Re-Establishment (Within 12 Months)	*	**	**
	NSF Check	15.00	25.00	20.00
5	Deferred Payment	1.5%	1.5%	1.5%
	Meter Test (If Correct)	30.00	30.00	30.00
6	Meter Re-Read (If Correct)	18.00	18.00	18.00

7 * Per Commission Rules (R14-2-403B)

8 ** Months off system times the minimum (R14-2-403.D).

9 12. Lagoon Estates' fair value rate base ("FVRB") is determined to be \$275,567. The
10 Company's FVRB is the same as its OCRB.

11 13. Lagoon Estates' current rates and charges produced revenues of \$90,460 in the TY
12 and resulted in an operating income of \$6,616.

13 14. Staff's adjustments to rate base, revenues, and expenses, as reflected in the Staff
14 Report, are reasonable.

15 15. The rates proposed by the Company would increase the median 5/8 x 3/4 inch met.
16 bill by 35.20 percent, from \$16.66 to \$22.52, and the average 5/8 x 3/4 inch meter bill by 35.10
17 percent, from \$21.41 to \$28.93.

18 16. The rates proposed by Staff would increase the median 5/8 x 3/4 inch meter bill by
19 46.50 percent, from \$16.66 to \$24.41, and the average 5/8 x 3/4 inch meter bill by 36.20 percent,
20 from \$21.41 to \$29.16.

21 17. Staff recommended its proposed rates and charges be granted without a hearing.

22 18. Staff's recommended rates and charges are just and reasonable.

23 19. Staff recommended that the irrigation water in system #08-021 be metered and that a
24 meter be installed at least one year prior to Lagoon Estates' next application for a rate increase.

25 20. Staff recommended that the Company be ordered to file applications for approval of
26 long-term debt, as required by the Commission, before filing the Company's next rate increase
27 application for two debts not approved by the Commission.

21. Staff recommended Lagoon Estates collect from its customers their proportionate

1 share of any Privilege, Sales, or Use Tax, in addition to collection of the Company's regular rates and
2 charges as provided for in A.A.C. R14-2-409.D.

3 22. Staff has indicated that the Company is current on all of its property taxes.

4 23. Lagoon Estates is not located within any Active Management Area and is not subject
5 to conservation and monitoring requirements.

6 24. Lagoon Estates is in compliance with the rules and regulations of ADEQ and is
7 delivering water that meets the quality standards of the Safe Drinking Water Act.

8 **CONCLUSIONS OF LAW**

9 1. Lagoon Estates is a public service corporation within the meaning of Article XV of the
10 Arizona Corporation Commission and A.R.S. §§ 40-250 and 40-251.

11 2. The Commission has jurisdiction over Lagoon Estates and of the subject matter of the
12 applications.

13 3. Notice of the applications was provided in the manner prescribed by law.

14 4. The rates and charges authorized hereafter are just and reasonable and should be
15 approved without a hearing.

16 5. Staff's recommendations contained in Findings of Fact Numbers 17, 18, 19, 20 and 21
17 are reasonable and should be approved with a modification of installing the new meter within 60 days
18 of the effective date of this Decision.

19 **ORDER**

20 IT IS THEREFORE ORDERED that Lagoon Estates Water shall file on or before April 28,
21 2000, the following schedule of rates and charges:

22 **MONTHLY USAGE CHARGES**

23		
24	5/8" x 3/4" Meter	\$12.25
	3/4" Meter	18.50
25	1" Meter	30.00
	1 1/2" Meter	61.00
26	2" Meter	98.00
	3" Meter	185.00
27	4" Meter	305.00
	6" Meter	612.00
	8" Meter	708.75

COMMODITY RATES (per 1,000 gallons)

All Meter Sizes:	\$2.00
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SERVICE LINE AND METERINSTALLATION CHARGES

(Refundable Pursuant to A.A.C. R14-2-405(B))

5/8" x 3/4" Meter	\$350.00
3/4" Meter	390.00
1" Meter	450.00
1 1/2" Meter	685.00
2" Meter	1,100.00
3" Meter	1,500.00
4" Meter	2,400.00
6" Meter	4,300.00
8" Meter	6,600.00

SERVICE CHARGES

Establishment	\$30.00
Establishment (After Hours)	45.00
Reconnection (Delinquent)	35.00
Meter Test (If Correct)	30.00
Deposit	*
Deposit Interest	*
Re-Establishment (Within 12 Months)	**
NSF Check	20.00
Deferred Payment (Per Month)	1.5%
Meter Test (If Correct)	30.00
Meter Re-Read (If Correct)	18.00

* Per Commission Rules R14-2-403.B

** Months off system times the minimum (R14-2-403.D)

IT IS FURTHER ORDERED the aforementioned rates shall become effective as of May 1, 2000.

IT IS FURTHER ORDERED that Lagoon Estates Water Company shall notify its customers of the rates and charges authorized herein and the effective date of same by means of an insert in its next regular scheduled billing.

IT IS FURTHER ORDERED that Lagoon Estates Water Company shall file a copy of the notice of rates and charges approved herein and sent to its customers with the Director of the Utilities Division within 30 days from the effective date of this Decision.

IT IS FURTHER ORDERED that Lagoon Estates Water Company shall install a meter at its #08-021 system as discussed in Findings of Fact No. 19 within 60 days of the effective date of this decision and file with the Commission within 30 days of the installation, documentation that said

work was completed.

IT IS FURTHER ORDERED that Lagoon Estates Water Company shall file applications for approval of long-term debt not approved by the Commission within 90 days of the effective date of this Decision.

IT IS FURTHER ORDERED that Lagoon Estates Water Company shall comply with the recommendations set forth in Findings of Fact Number 21.

IT IS FURTHER ORDERED that this Decision shall become effective immediately.

BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

Phil Kerasch
CHAIRMAN

James J. Smith
COMMISSIONER

William M. Smith
COMMISSIONER

IN WITNESS WHEREOF, I, BRIAN C. McNEIL, Executive Secretary of the Arizona Corporation Commission, have hereunto set my hand and caused the official seal of the Commission to be affixed at the Capitol, in the City of Phoenix, this 4th day of May, 2000.

Brian C. McNeil
BRIAN C. McNEIL
EXECUTIVE SECRETARY

DISSENT _____
AG:bbs

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SERVICE LIST FOR:

LAGOON ESTATES WATER COMPANY

DOCKET NO.

W-01825A-99-0701

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